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AUDIT REPORTS AND OTHER MATTERS

Procurement from developing countries

Report of the Administrator

SUMMARY

The present report is submitted pursuant to Governing Council decision 90/27 of 20 June 1990 and describes the findings and recommendations as an outcome of an analysis of the 15 per cent price preference system undertaken by the Inter-Agency Procurement Services Office. The report also describes other efforts taken by the United Nations system to increase procurement from developing countries. Detailed procurement statistics for 1990 will be available at a later date, and will be presented to the Council as a separate background paper.

INTRODUCTION

1. The present report is submitted in response to Governing Council decision 90/27 of 20 June 1990 requesting the Administrator to undertake an in-depth analysis of the existing price preferential system.

2. Following this decision, the Inter-Agency Procurement Services Office (IAPSO) sent a questionnaire to all organizations and bodies of the United Nations system concerned with procurement of goods and services, to obtain information on their experience with the application and effectiveness of the price preference system. The questionnaire was supplemented by a request from the United Nations Development Programme (UNDP) to its resident representatives to obtain their comments and suggestions based on discussions with the concerned government officials.

I. PROCUREMENT OVERVIEW

3. Over the last five years, there has been a significant increase in procurement of goods and services from developing countries. Based on the country of procurement, the trend has been as follows:

	1986	1987	1988	1989	1990
Millions of United States dollars	133	174	203	278	320
Percentage of total procurement	18.5	22.4	22.3	27.6	28.3

The increase, from $133 million in 1986 to $320 million in 1990, totals 53 per cent over four years measured in terms of procurement from developing countries as a percentage of total procurement.

4. The statistical data also indicate that the range of goods and equipment procured from developing countries has expanded from traditional items (i.e., food items, hand tools, clothing and building materials) to engineering items like pumps, generators, electric motors, compressors and even locally assembled computers and vehicles.

II. FACTORS CONTRIBUTING TOWARDS INCREASED PROCUREMENT FROM DEVELOPING COUNTRIES

5. The major factors contributing to the increase in procurement from developing countries are as follows:

(a) Identification of supply sources. Over the past three years specific projects have been completed jointly with the Office of Project Services (OPS) of UNDP and the International Trade Centre (ITC) in Algeria, Brazil, India, Indonesia, Tunisia, Turkey and Zimbabwe, with the objective of increasing transparency of the procurement activities in the United Nations system and identifying potential new sources of goods and services. In general, the results in terms of increased procurement figures in those countries have been most encouraging. In the case of India, since the inception of this project in 1987, the increase in procurement of goods and services amounted to 195 per cent over the last three years. In view of these encouraging results, the Government of India has requested a follow-up phase of the project, in which major emphasis is to be placed on the setting up of a computerized database linked with the IAPSO central database, to ensure regular updating of company information. Similar projects in Cuba, Kenya, Morocco, Nigeria, Singapore and Swaziland are at various stages of implementation. All these undertakings are being pursued as a part of the projects developed under the guidance of IAPSO for increased procurement from developing countries, including the establishment of interlinked local and central databases. Furthermore, to increase the procurement of professional services from developing countries, IAPSO uses the database of INRES-SOUTH to obtain preliminary information which is then updated during the field missions conducted as a part of the above projects;

(b) Advance information on business opportunities. All agencies and organizations of the United Nations system have been encouraged to advertise their business opportunities in line with the increasing demands of Governments for increased transparency of the procurement process. To attract a larger number of interested firms to bid, notably in the developing countries, information relating to UNDP project approvals (above $700,000), procurement notices (individual purchase orders above $100,000) and contract awards is published in a newspaper (Development Business) issued twice monthly by the United Nations. This information is also published in the IAPSO monthly bulletin Procurement Update (Copenhagen), supplied to all permanent missions and the Technological Pilot System (TIPS) as well as to nearly 300 focal points in developing countries, which in turn distribute it to their members. Through this process, it is estimated that information on procurement contracts is provided to nearly 30,000 potential suppliers in developing countries. IAPSO also distributes its annual publication General Business Guide 1/ to all focal points in developing countries;

(c) Awareness programme. In association with focal points from developing countries, training programmes for business communities are organized to create and increase awareness, especially on how to market goods and professional services to the agencies and organizations of the United Nations system;

(d) Participation in trade fairs. Trade fairs provide a valuable opportunity to identify potential suppliers and collect useful information on the availability of commodities. IAPSO is pursuing this matter by organizing business seminars to coincide with local trade fairs. Various organizations of the United Nations system participate actively in these endeavours;

(e) Short-listing of potential suppliers. To ensure that companies from developing countries are always represented in requests for offers and bids, a standard short-listing form has been developed. This is being used by a number of organizations of the United Nations system. During the recent Inter-Agency Procurement Working Group (IAPWG) meeting (Copenhagen, 3 to 5 April 1991), the participants were requested to pursue actively the implementation of this format.

(f) National execution. An analysis of the data shows a trend of increasing procurement from developing countries for nationally executed projects, even though the annual volume is relatively modest. The trend over the last three years has been as follows:

	1988	1989	1990
Millions of dollars	10.5	14.0	14.2
Percentage of total procurement under national execution	31.3	46.58	60

The increase, from $10.5 million in 1988 to $14.2 million in 1990, totals 92 per cent over three years, measured in terms of procurement from developing countries as a percentage of total procurement under national execution;

(g) Delegated authority. An increase in delegated authority has encouraged more procurement at the local and field office level and this has been actively pursued by a number of agencies and organizations of the United Nations system in recent years;

(h) Increased emphasis on and preference by the developing countries for local procurement. The importance of the role of the developing countries themselves in encouraging and expressing preference for local goods and services is an important factor. As noted above, this has been quite significant in a number of countries, such as India.

III. WORKING OF THE PRICE PREFERENTIAL SYSTEM

6. The responses from the agencies and UNDP resident representatives reveals that the 15 per cent rule has not found a useful place in the United Nations system. The major constraint for using a 15 per cent price preferential system is the implicit charge against indicative planning figure (IPF) resources for which recipient government clearance has been difficult to obtain.

7. Based on the analysis of the data collected by IAPSO, it was found that the price preference was only applied in very few cases and mainly for local

purchases. Among the agencies, only the United Nations Population Fund (UNFPA) has been able to apply the proviso without prior authorization from the recipient Government, since country IPFs are not used by UNFPA. Even in their case, it has been applied only once, since the prices of the type of goods they procure from developing countries are generally comparable with those from developed countries. In addition, most of the items required by UNFPA are not available in developing countries (e.g., contraceptives) and the 15 per cent premium allowed to suppliers in developing countries has therefore had practically no impact on the actual volume of procurement.

8. The study undertaken by IAPSO also clearly identified a number of significant constraints on increasing procurement from developing countries which cannot be addressed by the 15 per cent price preference. The constraints vary in nature from those on which the efforts of the United Nations system may have an impact, such as lack of knowledge of products and suppliers in the developing countries, to those where preferences, such as tied procurement, are expressed by the donors themselves or by multinational corporations; to those inherent to the suppliers themselves, such as the quality of the products and timeliness and reliability of distribution and delivery, to those under the direct influence and control of the host country itself, for example, through the preference, in some cases, for goods from developed countries, or through export or banking restrictions; to those affected by the nature of local demand and the types and capacities of the developing countries themselves, such as demand for capital intensive or highly specialized products, shipping and distribution costs and economies of scale.

9. All of these findings are consistent with those identified by the report of the Joint Inspection Unit (JIU) on procurement (JIU/REP/89/8), as well as by two consultants hired by UNDP in June 1989 to prepare a report for the Office of the Director General of the Department of International Economic Cooperation of the United Nations on the issue of increasing procurement from developing countries and underutilized major donor countries. These reports also concluded that the appropriateness of the preferential treatment should be reviewed and emphasis should be given to other system-wide efforts to increase procurement from developing countries.

IV. RECOMMENDATIONS

10. Based on the analysis of the workings of the 15 per cent price preferential system, the factors which have contributed towards increased procurement from developing countries and the major constraints outlined, it is evident that the existing preferential 15 per cent price proviso has not worked.

11. It is clear, however, that other efforts have been successful and have resulted in increased procurement from developing countries in recent years.

12. In this context and as a result of the findings of the analysis carried out by IAPSO, the Administrator recommends that the United Nations system continue to direct its attention towards building on the achievements to date by addressing the various constraints identified above.

13. More specifically, in terms of the system's efforts, the Administrator recommends that the following areas continue to receive priority attention:

(a) Consolidated guidelines. The guidelines developed by IAPSO should be further refined and submitted through the mechanisms of the Administrative Committee on Coordination: the Consultative Committee on Administrative Questions (Financial and Budgetary Questions (CCAQ (FB)) and the Consultative Committee on Substantive Questions (Operational Activities (CCSQ (OPS)) for adoption by the United Nations system;

(b) Common database. IAPSO should continue to expedite the implementation of the common system database so as to provide a linkage between potential supply sources in developing countries and the organizations of the United Nations system. Once implemented, the database would act as an important catalyst towards increased procurement from developing countries. A major step has already been initiated by IAPSO through the development of the United Nations Common Coding System (UNCCS);

(c) Strengthening of national capabilities. While the identification of national capabilities goes much beyond the control solely of the United Nations system, any efforts that the United Nations system can make to enhance such capabilities, such as through training programmes, would have a positive impact on the abilities of countries to overcome the constraints;

(d) Project formulation and instructions. Efforts should be made to ensure that the concerns and priorities relating to increased procurement from developing countries are fully taken into account during the early design process and that appropriate amendments to formats and internal instructions are prepared and disseminated accordingly;

(e) Market knowledge. IAPSO should continue its efforts to identify additional potential supply sources in developing countries and to disseminate such information among the procurement staff of all the agencies and organizations of the United Nations system. In addition, a special effort should be made by IAPSO to improve the qualitative information of the modules prepared by IAPSO, such as supplier catalogues, including vendor ratings;

(f) Human resources development. IAPSO, in cooperation with other organizations and bodies of the United Nations system, should continue to pursue training programmes aimed at increasing the awareness of the business community in developing countries concerning various aspects of procurement and logistics;

(g) Business opportunities. To increase the transparency of procurement activities in the United Nations system, advance information on business

opportunities should be disseminated to the chambers of commerce in developing countries. This effort would require the active participation of all United Nations executing agencies;

(h) Strengthening of focal points and efforts at the local level. In addition to efforts by the United Nations system itself, Governments themselves should be encouraged to establish focal points at local levels, and to alleviate physical, financial and other constraints for suppliers and the private sector.

Notes

1/ UNDP. General Business Guide for Potential Suppliers of Goods and Services to the United Nations System (IAPSO, Copenhagen). Published annually.